Hawk Oil Inc.

SHARP. ALERT. POISED.

1997 annual report

Corporate Profile

Hawk Oil Inc. is an emerging junior oil and gas company engaged in the exploration, development and acquisition of oil and natural gas reserves in West Central and Southeast Saskatchewan.

Hawk Oil was incorporated as a private company in late 1996. It completed an initial public offering in 1997 and listed its shares for trading on The Alberta Stock Exchange. The Company's Class A shares and share purchase warrants began trading on the ASE on September 11, 1997 under the symbols HWK.A and HWK.WT.A respectively. The Class B shares began trading on the ASE on January 19, 1998 under the symbol HWK.B.

Hawk maintains a large balanced portfolio of internally generated exploration and development plays. The Company selectively pursues its opportunities by favouring high working interests in prospects that offer low risk coupled with high netbacks and immediate cash flow. Concurrently, Hawk maintains an inventory of high risk, high impact exploration prospects with lower working interests. The Company operates the vast majority of its production and strives to minimize finding and onstream costs.

Contents

Annual Meeting of Shareholders

The Annual General Meeting of Shareholders of Hawk Oil Inc. will be held at 3:30 p.m. on Tuesday, June 9, 1998 at Code Hunter Wittmann Barristers & Solicitors.

Letter to the Shareholders

Hawk Oil Inc. passed several important milestones during 1997, its first year of operations. Hawk completed its first equity financing totalling $8 million in August and soon after began an active exploration and development drilling program.

Significant reserve additions and production resulted from its drilling program and additional lands were acquired for further exploration and development drilling during 1998.

Hawk was incorporated as a private company in late 1996. In early 1997, Hawk initiated the process of "going public" on the Alberta Stock Exchange (ASE) and raised a total of $8 million by issuing 4,182,400 Class A shares and 712,752 Class B flow-through shares. During 1997, the Company renounced the majority of the Canadian Exploration Expense and Canadian Development Expense directly to the Class B Shareholders. The Company completed its Initial Public Offering in August and has been trading on the ASE since September.

Hawk's efforts in the fall of 1997 were very successful. Given our brief history we are very proud of our accomplishments which are highlighted as follows:

- *Created a top-notch technical team consisting of two geologists, a consulting geophysicist, a landman and an engineer*
- *Drilled 14 (7.7 net) exploration and development wells which resulted in nine (4.9 net) producing oil wells for an overall success rate of 64%*
- *Prudently invested, by December 31, 1997, $3.8 million on drilling, land acquisition, seismic and facilities which resulted in:*
  - *Added production of 225 bopd*
  - *Proved reserve additions of 1,056 Mboe (Finding and Development Cost = $3.60/boe)*
  - *Proved plus probable reserve additions of 2,388 Mboe (Finding and Development Cost = 1.59/boe)*
  - *Added 8,200 acres of undeveloped land (6,500 net)*
  - *Shot and acquired 242 km of 2-D seismic*

Growth Strategy

Hawk was formed to be an oil and gas exploration company. Our strategy was to explore, initially for oil, in West Central and Southeast Saskatchewan. Oil exploration in these areas offers year round drilling access, economic drilling and production costs, prolific production rates and most importantly, immediate cash flow. Hawk's technical team has a competitive advantage due to its extensive experience working in these regions and has already created a large inventory of opportunities.

As drilling prospects were developed, Hawk's level of participation in any given play was determined by cost and risk analysis. The Company prefers to have operatorship and a high working interest in any development project in order to maintain control over the technical aspects, capital and operating costs. To date the Company has drilled three development wells at 100% working interest. On higher risk exploration wells, Hawk prefers to reduce its exposure by limiting its working interest to the 25% to 50% level. This strategy also enables the Company to participate in a greater variety of exploration plays.

While many outside generated opportunities have been made available to Hawk, the Company has been more comfortable with the higher level of confidence that comes from developing its own plays. Hence the majority of prospects that we have drilled have been internally generated.

Notwithstanding Hawk's exploration thrust to date, we recognize the importance of a balanced portfolio of opportunities. To maintain this balance we are constantly evaluating development farmin opportunities where vertical infill, horizontal infill, or step out drilling is required to further exploit existing pools. We are also building an inventory of potential acquisitions of under-developed oil and gas pools. To date we have acquired two minor properties, at Queensdale and Glen Ewen, each with vertical wells producing at marginal rates. Hawk plans to drill horizontal wells on both properties in 1998.

Hawk will acquire larger properties if the acquisition fits its corporate strategy. We are actively searching for operated, high interest, underdeveloped properties that can be acquired at a reasonable cost. The Company is well positioned to make an acquisition in this relatively weak market as we have cash flow, cash on hand as well as an unused credit facility of $1.5 million.

Hawk strives to keep both operating costs and overhead to an absolute minimum. In order to achieve this goal we prefer to operate the majority of our production so that we can control and minimize costs. This past year Hawk spent capital on facilities such as casing head gas scrubbers and pipelines to ensure that our production would be as low cost and profitable as possible.

1998 Outlook

Hawk believes that its operating strategy, land base, financial position, strength of management team and drilling results to date form a strong foundation for continued success and growth in production, reserves and cash flow during 1998.

In 1998 Hawk will again focus the bulk of its capital spending and activities in Southeast Saskatchewan. In this area Hawk will drill at least six exploratory wells on internally generated prospects, and will be evaluating two deeper Ordovician prospects with 3-D seismic. We have also developed an extensive inventory of development opportunities of which two (Queensdale and Glen Ewen) have been chosen for immediate drilling.

Hawk has also examined a number of seismically defined gas prospects in Central Alberta and has elected to drill one in the third quarter of 1998. The Company has identified numerous leads around this prospect which, with drilling success, could lead to the establishment of a new core area.

Hawk's Epping property holds numerous opportunities for growth in production and reserves through step out and infill drilling. The Company will work to increase production at Epping only after heavy oil prices recover.

Hawk's capital budget for 1998 is conservatively set at $4.6 million. This figure assumes Hawk will not complete any equity issues during 1998. The bulk of the budget will be spent on exploration and development drilling. If the equity markets for the energy sector improve, Hawk will raise additional capital to fund the drilling of its growing inventory of development opportunities.

Acknowledgments

I would like to take this opportunity to extend my sincere thanks to Hawk's technical team for their dedication and effort, to our joint venture partners for the opportunity to create value with them, and to our directors for their wise counsel. I would also like to thank our shareholders for their patience during our start up phase.

On behalf of the Board of Directors,

S. Fitzmaurice

Stephen J. Fitzmaurice
President, C.E.O.,
Chairman of the Board

March 30, 1998

Operations Review

After listing on the Alberta Stock Exchange in September, 1997, Hawk Oil Inc. evolved quickly into an active exploration and development company. Numerous internally generated prospects in Saskatchewan were vigorously pursued resulting in the drilling of 14 wells (7.7 net) by year end.

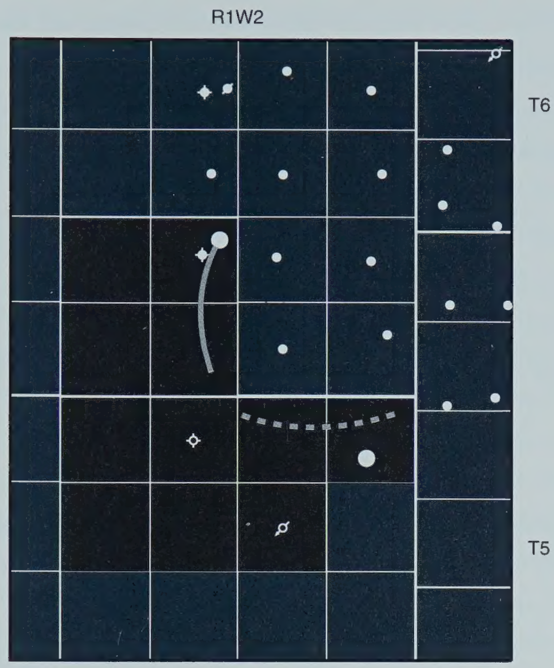
The majority of these prospects were operated by Hawk and involved both farmin and purchase of exploratory or producing acreage. Land held by year-end totalled approximately 10,000 gross acres and contained a number of drillable locations in our core areas. Hawk spent $3.8 million on these activities in 1997 and exited the year with significant proven reserves and production of 225 bopd.

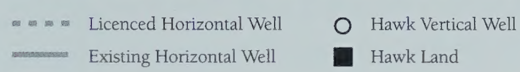
1998 Growth Strategies

This rapid success forms the basis for continued growth in 1998 and was achieved by adhering to our growth strategy. The key elements of this strategy include:

- *Concentration on projects which generate near term cash flow by:*
  - *Exploring in areas with low cost drilling and infrastructure*
  - *Exploring for pools that can be brought onstream quickly*
  - *Maintaining control over capital and operating costs*
- *Concentration on areas that are well understood by our technical team*
- *Pursuit of internally generated prospects using sophisticated geophysical technology*
- *Maintenance of high working interest and wherever possible, operatorship*
- *Expansion of our land base within our core areas*
- *Maintenance of a large, balanced inventory of exploration, development and acquisition opportunities*

QUEENSDALE, SASKATCHEWAN





Queensdale

The Queensdale property is operated by Hawk and is located approximately 85 km northeast of Estevan, Saskatchewan. The Company currently holds a 100% working interest in 400 acres and two producing oil wells. The producing zone is the Mississippian Lower Hastings which in this pool contains 37 degree API oil in high permeability rock.

Hawk drilled a 100% working interest horizontal farmin well on this property which initially produced in excess of 250 bopd. This highly successful well is currently producing at a stable 110 bopd. To minimize operating costs the well was tested for a month and then pipelined to a treating facility where the emulsion is processed at a very reasonable cost of $ 0.36 per bbl.

In December 1997, Hawk acquired 240 acres and one producing oil well adjacent to its acreage. A horizontal well will be drilled on this acreage in the second quarter of 1998 with a possible second well later this year. The Company has identified a number of exploration opportunities in this high netback area which will be actively pursued in 1998.

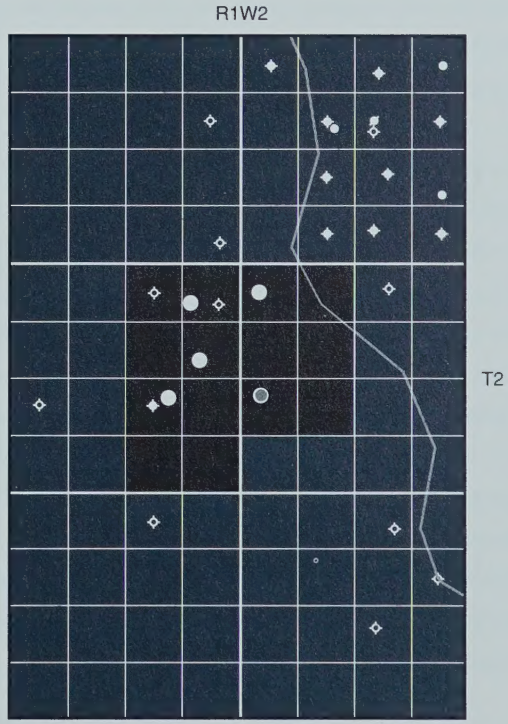
Glen Ewen

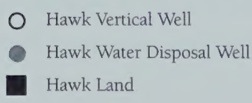
The Glen Ewen property was acquired January 1, 1998, is operated by Hawk and is located approximately 65 km east of Estevan, Saskatchewan. The Company currently holds an average 45% working interest in 560 acres, four producing oil wells, a battery and a water disposal well. From this property light oil (33.5 degree API) is produced from the highly permeable Mississippian Bluell zone.

Hawk identified this property as one which could be further exploited with horizontal wells. It was subsequently purchased together with partial 3-D seismic coverage. Additional prospective lands adjacent to the producing property are presently being acquired.

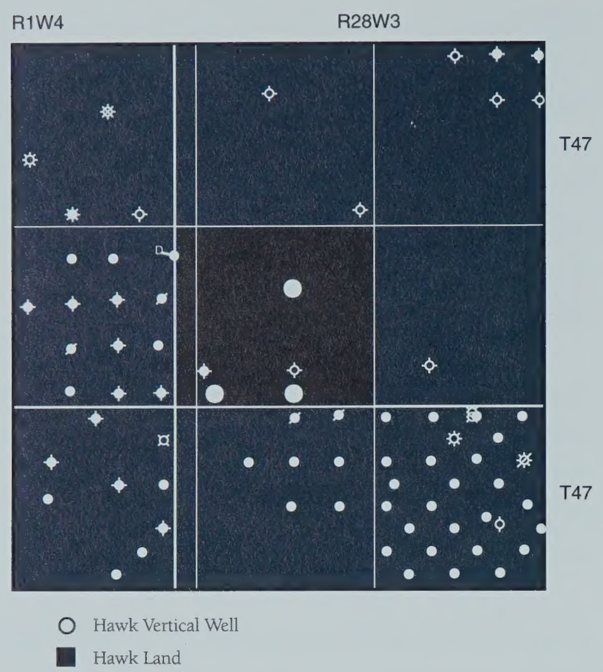
At least one dual legged horizontal well will be drilled on the property this year. Additional seismic will be acquired to best position follow up wells. Optimization of producing vertical oil wells is currently underway.

GLEN EWEN, SASKATCHEWAN





EPPING, SASKATCHEWAN



Epping

The Epping property is operated by Hawk and is located on the Alberta-Saskatchewan border 14 km south of Lloydminster. The Company holds a 100% working interest in 696 acres. Production in this region is associated with stacked sands of the Mannville Group which display excellent reservoir characteristics.

Three high resolution seismic lines acquired on this land identified multiple drilling locations in up to five different Mannville zones. Three successful oil wells were drilled (resulting in two new pool discoveries) in the fourth quarter and are currently producing 13 to 18 degree API oil from the McLaren, GP and Cummings Sands. Significant oil reserves have been discovered in each of these zones as well as gas reserves in the Colony and Lloydminster Sands. Future plans include a 3-D seismic survey to best pinpoint in excess of a dozen multi-zone development locations. However, a pessimistic short-term heavy oil price outlook has delayed all further development on this valuable property until commodity prices justify the expenditure.

Hawk has also acquired a 100% working interest in 640 acres of land in the Lloydminster area, which has excellent step out potential. Delineation of drilling locations on this parcel also awaits a commodity price rebound.

Exploration Discussion

Hawk set out to explore in relatively well understood, accessible areas where near term cash flow could be attained. This exploration strategy led the Company to direct the majority of its spending to the light oil prone Williston Basin in Southeast Saskatchewan. The Company was an active driller in 1997 and will increase this level of activity in 1998.

Hawk will continue to build a well balanced portfolio of exploration and development opportunities giving particular consideration to commodity price fluctuations, service industry costs, land costs and land availability. The Company will accordingly position itself where it can best increase value for our shareholders. With this in mind, Hawk is not planning significant investment in heavy oil as management does not anticipate any meaningful recovery in heavy oil prices over the coming year. Exploratory prospects will be tested and additional 2-D and 3-D seismic will be acquired on a number of new leads, including two of Ordovician Age. Hawk has evaluated and developed a number of exploratory gas prospects in Alberta and will move to establish areas of activity over the coming months. As well, a number of excellent development opportunities have been identified in Southeast Saskatchewan. The Company controls land on some of these and is in the midst of farmin or purchase negotiations on others.

The coming year will be an exciting time for Hawk as it grows from a start up venture to an established producer.

Drilling Summary

During 1997, Hawk participated in the drilling of 14 wells, seven of which Hawk operated.

	Gross	Net
Oil	9	4.9
D&A	5	2.8
Total	14	7.7
Success Rate		64%

Land Holdings

As a junior company, Hawk recognizes the importance of a large undeveloped land base and has started to accumulate land in strategic areas. Hawk currently holds approximately 10,000 acres (7,000 net) of land in Saskatchewan, 6,500 net acres of which are undeveloped.

Production Summary

As a result of its exploration activity during 1997, Hawk attained a daily production rate of 225 bbls of oil at year-end. The Company's drilling activity was, however, concentrated during the last two months of 1997 resulting in 64 bopd average production for the last quarter of 1997.

Production Summary

Property	Working Interest (%)	Gross Year End Production (bopd)	Net Year End Production (bopd)
Epping	100	80	80
Gainsborough	24.5	23	6
Queensdale	100	134	134
Rosebank	2.2	200	5
Total		437	225

Reserve Summary

Hawk's reserves have been evaluated effective December 31, 1997 by the independent engineering firm of Outtrim Szabo Associates ("Outtrim"). The following tables summarize the findings of the Outtrim report on an escalated prices basis:

	Remaining Reserves		Net Present Value Before Income Tax Discounted			
	Crude Oil Mbbls	Natural Gas Mmcf	0% M$	10% M$	15% M$	20% M$
Total Proven	1,053	31	9,656	5,366	4,322	3,595
Probable	1,222	1,101	14,856	5,664	3,954	2,904
Proved + Probable	2,275	1,132	24,512	11,030	8,276	6,499
Proved + 1/2 Probable	1,664	582	17,084	8,198	6,299	5,047

Finding and Development Costs

Total Capital Expenditures	$	3,799,514	
Total Proved Reserve Additions		1,056	Mboe
Proved Finding and Development Costs	$	3.60	per boe
Total Proved + Probable Reserve Additions		2,388	Mboe
Proved + Probable Finding and Development Costs	$	1.59	per boe

Management's Discussion and Analysis

Exchange Offering Prospectus

Pursuant to an Agency Agreement dated June 24, 1997 with Research Capital Corporation, Hawk completed its initial public offering whereby it issued 2,682,400 Class A shares at $0.20 per Class A Share and 712,752 Class B shares at $10 per Class B share for total consideration of $7,664,000. In addition, 383,200 share purchase warrants and 153,280 broker warrants were issued in connection with the public offering. Each share purchase warrant entitles the holder to purchase one Class A share for $1.25 until September 18, 1998. Each broker warrant enables Research Capital Corporation to purchase one Class A share for $1.00 until October 22, 1999.

The Class A shares and share purchase warrants began trading on the Alberta Stock Exchange on September 11, 1997 under the symbols HWK.A and HWK.WT.A. respectively. The Class B shares began trading on the Alberta Stock Exchange on January 19, 1998 under the symbol HWK.B.

Financial Summary

Until September 30, 1997, the Company was in the preproduction stage, and as a result, all operations up to this date have been capitalized as part of petroleum and natural gas properties and equipment. Commercial production commenced October 1, 1997 and operating results for the three months ending December 31, 1997 were as follows:

	$	**bbl**	**$/bbl**
Sales	123,733	5,862	21.11
Royalties	(27,056)		(4.62)
Operating expenses	(38,482)		(6.56)
Net operating income	$58,195		$9.93

The Company's average production rate over the three month period ending December 31, 1997 was 64 bopd. The majority of the Company's production came onstream in December 1997 and the Company exited 1997 with a production rate of 225 bopd.

Capital Expenditures

During 1997, Hawk carried out an aggressive exploration and development program and had $3,799,514 in capital expenditures. This was divided into drilling and exploration costs valued at $2,925,525, land and equipment purchases of $409,508 and $452,200 respectively, and $12,281 in other costs.

Net Asset Value

As at December 31, 1997, Hawk's net asset value (basic) was $2.42 per Class A share. This is based on the independent evaluation of the Company's proven and half probable reserves, discounted at 15 percent.

		As at December 31, 1997
Proved plus 1/2 probable reserves discounted at 15% before tax	$	6,299,000
Undeveloped acreage ($50/acre)	$	325,000
Working capital	$	3,478,707
Net asset value (basic)	$	10,102,707
Net asset value (basic) per Class A share* as at December 31, 1997	$	2.42
Proceeds from the exercise of stock options and warrants	$	841,080
Net asset value (fully diluted)	$	10,943,787
Net asset value (fully diluted) per Class A share* as at December 31, 1997	$	2.16

*without conversion of Class B shares

General and Administrative Expenses

During 1997, Hawk had general and administrative expenses of $146,050 of which $69,730 was capitalized to petroleum and natural gas properties and equipment as part of the preproduction costs. For the three months ending December 31, 1997, general and administrative expenses averaged $13.02 per bbl. This figure is high as the Company's significant production did not commence until December, 1997. The general and administrative expense will decrease in 1998 as production will increase above the average rate of 64 bopd.

Depletion and Amortization

	$	$/bbl
Depletion and amortization	5,858	1.00
Site restoration	85	.01
Total	5,943	1.01

Financial Resources and Liquidity

Working Capital

At December 31, 1997 Hawk had working capital of $3,478,707, which was comprised of cash flow from operations of $31,044, net proceeds from the issuance of shares of $7,247,177 less capital expenditures of $3,799,514.

Debt

On April 23, 1998, the Company has established a credit facility of $1.5 million at an interest rate of prime plus one half percent. As of December 31, 1997 the Company had no debt.

Capital Requirements

Hawk intends on funding its capital expenditures in the near term through a combination of internally generated cash flow and funds raised in our initial public offering in 1997. The Company has no immediate plans to raise additional funds through the equity markets. However, if equity markets for the energy sector improve, then Hawk may raise additional capital through the sale of shares.

Year 2000

A year 2000 problem can arise from computer systems misinterpreting the December 31, 1999 change of date to January 1, 2000. Hawk currently uses no internal computer systems or applications which could misinterpret this critical change of date. Our accounting and land systems are manual, but if we should convert to an automated system, we will ensure this issue is resolved before they are installed. Hawk has already ensured that computer systems and applications being used by our suppliers are Year 2000 compliant.

Auditors' Report

To the Shareholders of Hawk Oil Inc.

We have audited the balance sheet of Hawk Oil Inc. as at December 31, 1997 and the statements of operations and retained earnings and changes in financial position for the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and the results of its operations and the changes in financial position for the period ended December 31, 1997 in accordance with generally accepted accounting principles.

Price Waterhouse.

Calgary, Alberta
April 17, 1998

Chartered Accountants

Balance Sheet

As at December 31, 1997

ASSETS

Current		
Cash and short term deposits	$	4,512,745
Accounts receivable		464,429
Prepaid expenses		9,600
		4,986,774
Capital assets (Note 3)		2,686,468
	$	7,673,242

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	$	1,508,067
Provision for site restoration		85
		1,508,152
Shareholders' equity		
Share capital (Note 4)		6,156,281
Retained earnings		8,809
		6,165,090
	$	7,673,242

Approved on behalf of the Board:

S. Fitzmaurice Director

M. Gaudet Director

Financial Statements

Statement of Operations and Retained Earnings

For The Period Ended December 31, 1997

Revenue		
Petroleum and natural gas sales, net of royalties	$	96,677
Interest income		49,169
		145,846
Expenses		
General and administrative		76,320
Operating		38,482
Depletion and amortization		5,943
		120,745
Net income before provision for income taxes		25,101
Deferred income taxes (Note 5)		(16,292)
Net income representing retained earnings	$	8,809
Net income per share	$	0.00

Statement of Changes in Financial Position

From Inception to December 31, 1997

Operating activities		
Net income	$	8,809
Add items not affecting cash		
Depletion and amortization		5,943
Deferred income taxes		16,292
		31,044
Net change in non-cash working capital		1,034,038
		1,065,082
Financing activities		
Issuance of share capital		7,964,000
Share issuance costs		(716,823)
		7,247,177
Investing activities		
Capital expenditures		(3,799,514)
Cash and short term investments, end of period		$ 4,512,745

1. Incorporation

The Company was incorporated under the laws of the Province of Alberta by a Certificate of Incorporation dated November 18, 1996. The Company was in the preproduction stage of development until September 30, 1997 after which the Company commenced producing commercial quantities of oil. Consequently, all preproduction income and expenses have been capitalized. The Statement of Operations and Retained Earnings is for the period October 1, 1997 to December 31, 1997.

2. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a) *Petroleum and natural gas properties and equipment*

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized into a single Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related overhead charges.

Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and natural gas reserves, as determined by outside consultants, are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The net carrying costs of the Company's oil and natural gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year-end without escalation or discounting.

2. **Summary of significant accounting policies (continued)**

b) *Joint venture accounting*

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

c) *Capital assets*

Capital assets are recorded at cost. Amortization is provided at the following rates and methods:

Furniture and fixtures	20% declining balance
Computer equipment	20% declining balance
Office equipment	20% declining balance

d) *Future removal and site restoration costs*

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

e) *Flow-through shares*

The deductions for income tax purposes of resource expenditures related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

f) *Net income per share*

Net income per share of $0.00 is based upon the weighted average number of common shares outstanding during the period (2,427,965). For purposes of calculating basic net income per share, the Class B shares have not been converted into Class A shares. Fully diluted net income per share is also $0.00.

3. **Capital assets**

	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,680,045	$ 3,402	$ 2,676,643
Furniture and fixtures	2,455	491	1,964
Computer equipment	9,321	1,864	7,457
Office equipment	505	101	404
	$ 2,692,326	$ 5,858	$ 2,686,468

During 1997, the Company incurred $3,787,233 of capital expenditures related to petroleum and natural gas properties and equipment. This total has been adjusted by the tax effect of flow-through expenditures renounced to the Class B shareholders in the amount of $1,107,188.

Costs associated with unproven properties excluded from costs subject to depletion for 1997 totalled $153,158.

4. Share capital

a) *Authorized:*

Unlimited number of Class A voting shares
Unlimited number of Class B subordinated voting shares

The Class B shares are convertible into Class A shares at a date to be selected by the issuer, between June 30, 2000 and June 30, 2002 and at the option of the Class B shareholder between July 1, 2002 and August 31, 2002. Any Class B shares outstanding on August 31, 2002 shall be automatically converted into Class A shares. The fraction of a Class A share obtained upon conversion of each Class B share will be equal to $10.00 divided by the greater of $1.00 and the current market price of a Class A share.

b) *Issued:*

	Number of Shares	Amount
Class A shares		
Issued for cash to Founders	1,500,000	$ 300,000
Issued for cash pursuant to a prospectus dated June 24, 1997		
To directors	19,250	3,850
Others	2,663,150	532,630
Share issue costs	-	(75,212)
	4,182,400	761,268
Class B shares		
Issued for cash pursuant to a prospectus dated June 24, 1997		
To directors	5,115	51,150
Others	707,637	7,076,370
Tax effect of flow through	-	(1,107,188)
Share issue costs (net of deferred tax of $16,292)	-	(625,319)
	712,752	5,395,013
Total share capital	-	$ 6,156,281

During 1997, the Company incurred qualifying expenditures totalling $2,499,295.

In 1998, the Company intends to incur $4,628,225 of qualifying expenditures associated with the flow-through shares issued in the June 24, 1997 prospectus. As a result of incurring these expenditures and renouncing them to the Class B subscribers, petroleum and natural gas properties and Class B share capital will be reduced by the tax effect of flow-through renunciation in the amount of $2,050,303.

c) *Prospectus offering*

During 1997, the Company offered for sale a maximum of 8,000 units through a prospectus offering. Each $1,000 unit consisted of 350 Class A shares ($70), 93 Class B flow-through shares ($930) and 50 Class A common share warrants. Each warrant entitles the holder to purchase one Class A share for $1.25 until September 18, 1998.

As a result of the prospectus, 2,682,400 Class A shares and 712,752 Class B shares were issued for total consideration of $7,664,000.

4. Share capital (continued)

d) Share options

The Company has granted officers, directors and consultants the following share options:

Number of Options	Exercise Price Per Option	Expiry Date
195,000	$0.60	April 15, 2002
153,000	$0.60	August 7, 2002

e) Share purchase warrants

The Company has issued 383,200 share purchase warrants. Each warrant entitles the holder to purchase one Class A share for $1.25 until September 18, 1998. In addition, the Company has issued 153,280 broker warrants. Each broker warrant enables the Agent to purchase one Class A share for $1.00 until October 22, 1999.

5. Income taxes

The income tax expense in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44.3% to net income. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

Computed "expected" income tax expense	$ 11,120
Non-deductible depletion	779
Non-deductible other	4,393
	$ 16,292

The Company has $288,305 of loss carry forwards which expire in 2004 and tax pools in respect of capital assets of $1,114,403. In addition, the Company has available for deduction against taxable income share issue costs of $536,681. The utilization of these deductions will result in a credit to share capital.

6. Financial instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable and all current liabilities.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest rate risk

At December 31, 1997, there is no interest rate risk.

Corporate Information

Directors

* Steve Fitzmaurice, P.Eng.
President, Chief Executive Officer
and Chairman of the Board
Hawk Oil Inc.

Erik DeWiel, P.Land
Vice President, Land and
Business Development
Hawk Oil Inc.

Randy Deobald, P.Geol.
Vice President, Exploration
Hawk Oil Inc.

John Wright, P.Eng., C.F.A.
President and Chief Executive Officer
Pacalta Resources Ltd.

* Thomas Buchanan, C.A.
President and Chief Executive Officer
Founders Energy Ltd.

* Mike Shaikh, C.A.
President
M.H. Shaikh Professional Corporation

Officers

Steve Fitzmaurice, P.Eng.
President, Chief Executive Officer

Erik DeWiel, P.Land
Vice President, Land and
Business Development

Randy Deobald, P.Geol.
Vice President, Exploration

Greg Turnbull, L.L.B.
Secretary

* members of the audit committee

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Facsimile: (403) 233-7354

Auditors

Price Waterhouse
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta

Solicitors

Code Hunter Wittmann
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbols:
Class A Shares: HWK.A
Class B Shares: HWK.B
Warrants: HWK.WT.A

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